Hlabisa Local Municipality
Annual Financial Statements
for the year ended 30 June 2011

Issued 31 August 2011

General Information

Mayoral committee		
Mayor	V.F Hlabisa	Chairperson of the Executive Committee
Councillors	B.B Ntombela	Deputy Chairperson of the Executive Committee
	S.F Mdaka	
Grading of local authority	2	
Accounting Officer	Mr SB Mthembu (Acting Municipal Manager)	
Chief Finance Officer (CFO)	B.M Thusi	
Registered office	Lot 808 Manson Street Hlabisa 3937	
Telephone Number	035 838 8500	
Fax Number	035 338 8500	
Postal address	P.O. Box 387 Hlabisa 3937	
Bankers	ABSA/ FNB	
Auditors	Auditor General South Africa (AGSA)	
Councillors (24 June 2011 - 30 June 2011)	V.F Hlabisa B.S Hlabisa M.S Jele T.T Kunene B.J Langa B.W Manqele G.R Mchunu S.F Mdaka Z.P Ndlovu H.T Nkosi T.Z Nkosi B Ntombela O.Z Simelane M.B Sithole V.M.V Zungu B.I Zungu	

General Information

Councillors (1 July 2010 - 23 June 2011)	M.T Dube
	N.L Gumbi
	B.C Gumede
	M.S Gumede
	M.D Hlabisa
	M.W Khumalo
	T.T Kunene
	S.M Langa
	Z.W Mathonsi
	H.G Mavimbela
	H.P Mayise
	M.J Mbatha
	T.Z Mbatha
	G.R Mchunu
	H.T Mkhwanazi
	L.X Mkhwanazi
	M.Q Mkhwanazi
	S.H Mngomezulu
	P.K Msweli
	M.A Msweli
	S.J Shezi
	N.M Ncube
	T.W Ndaba
	A.T Ngcobo
	H.S Nhlabathi
	H.T Nkosi
	M.I Nkosi
	C.S Ntombela
	M.A Ntombela
	D.R Ntuli
	Z.E Nyawo
	D.T Sibisi
	J.M Zungu

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The reports and statements set out below comprise the annual financial statements presented to the council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

I am responsible for the preperation of these annual financial statements, which are set out in pages 8 to 38 in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) which i have signed on behalf of the Municipality.i certify that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors, if any, as disclosed in note 22 of these financial statements are within the upper limit of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of the Public Office Bearers Act and the Minister of Corporate Governance and Traditional Affairs determination in accordance with this Act.

Accounting Officer
Mr S B Mthembu

Report of the Auditor General

To the Provincial Legislature of Hlabisa Local Municipality

Report on the financial statements

I have audited the accompanying annual financial statements of the Hlabisa Local Municipality which comprise the statement of financial position as at 30 June 2011, statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the [directors' / accounting officer's / accounting authority's] report, as set out on pages 7 to 37.

Basis of accounting

The entity's policy is to prepare annual financial statements on [the basis of accounting determined by the National Treasury] [entity-specific basis of accounting] as set out in [accounting policy note] [note to the financial statements].

Auditor General South Africa (AGSA)

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2011.

Statement of Financial Position

Figures in Rand	Note(s)	2011	2010
Assets			
Current Assets			
Inventories	5	1,884	19,217
Trade and other receivables from exchange transactions	6	13,251	27,556
VAT receivable	7	2,624,186	1,545,855
Consumer debtors	8	432,339	988,868
Cash and cash equivalents	9	10,376,633	5,495,829
		13,448,293	**8,077,325**
Non-Current Assets			
Investment property	2	113,900	113,900
Property, plant and equipment	3	71,307,685	59,177,562
Intangible assets	4	745,568	19,075
Deposits		14,200	14,200
		72,181,353	**59,324,737**
Total Assets		**85,629,646**	**67,402,062**
Liabilities			
Current Liabilities			
Finance lease obligation	10	217,456	351,231
Trade and other payables from exchange transactions	12	7,867,570	5,527,801
Unspent conditional grants and receipts	11	12,530,726	5,008,838
Bank overdraft	9	1,666,095	53,157
		22,281,847	**10,941,027**
Total Liabilities		**22,281,847**	**10,941,027**
Net Assets		**63,347,799**	**56,461,035**
Net Assets			
Accumulated surplus		63,347,799	56,461,035

Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
Revenue			
Property rates	14	307,113	466,652
Service charges	15	660,448	1,051,973
Property rates - penalties imposed and collection charges		112,535	88,600
Fines		6,282,961	7,884,499
Licences and permits		274,663	301,283
Government grants & subsidies	16	64,818,322	56,840,367
Rental income		192,044	165,893
Sundry Income		276,335	1,147,770
Interest received - investment		895,124	373,020
Total Revenue		**73,819,545**	**68,320,057**
Expenditure			
Employee Related costs	19	(14,061,189)	(11,899,264)
Remuneration of councillors	20	(6,885,481)	(7,040,981)
Depreciation and amortisation	21	(2,594,325)	(2,040,135)
Finance costs	22	(32,161)	(42,701)
Debt impairment		(88,932)	(1,099,055)
Repairs and maintenance		(122,078)	(229,634)
Contracted services	24	(2,632,337)	(9,134)
Grants and subsidies paid		(19,517,052)	(9,237,478)
General Expenses	18	(20,830,678)	(15,354,950)
Total Expenditure		**(66,764,233)**	**(46,953,332)**
Surplus for the year		**7,055,312**	**21,366,725**

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2009	**34,934,033**	**34,934,033**
Changes in net assets		
Grap Conversion Adjustments	160,277	160,277
Net income (losses) recognised directly in net assets	160,277	160,277
Surplus for the year	21,366,725	21,366,725
Total recognised income and expenses for the year	21,527,002	21,527,002
Total changes	21,527,002	21,527,002
Balance at 01 July 2010	**56,461,035**	**56,461,035**
Changes in net assets		
Prior period adjustment	(168,548)	(168,548)
Net income (losses) recognised directly in net assets	(168,548)	(168,548)
Surplus for the year	7,055,312	7,055,312
Total recognised income and expenses for the year	6,886,764	6,886,764
Total changes	6,886,764	6,886,764
Balance at 30 June 2011	**63,347,799**	**63,347,799**

Note(s)

Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
Cash flows from operating activities			
Receipts			
Sale of goods and services		1,216,977	9,549,068
Grants		64,818,322	56,700,805
Interest income		895,124	373,021
Other receipts		7,065,619	-
Other cash item		1,384,425	-
		75,380,467	66,622,894
Payments			
Employee costs		(20,946,670)	(18,940,245)
Community Grant Expenditure		(19,517,052)	(9,237,478)
Consulting and Professional Fees		(7,944,133)	(6,146,066)
Other payments to suppliers		(7,997,361)	(6,599,537)
		(56,405,216)	(40,923,326)
Net cash flows from operating activities	25	**18,975,251**	**25,699,568**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(14,691,219)	(24,583,931)
Purchase of other intangible assets	4	(850,230)	-
Proceeds from sale of investments		-	2,151,463
Movements in Investments		-	2,941,789
Net cash flows from investing activities		**(15,541,449)**	**(19,490,679)**
Cash flows from financing activities			
Finance lease payments		(165,936)	(147,111)
Other Adjustments		-	160,281
Net cash flows from financing activities		**(165,936)**	**13,170**
Net increase/(decrease) in cash and cash equivalents		**3,267,866**	**6,222,059**
Cash and cash equivalents at the beginning of the year		5,442,672	(779,387)
Cash and cash equivalents at the end of the year	9	**8,710,538**	**5,442,672**

Accounting Policies

1. Presentation of Annual Financial Statements

1. Basis of preparation of the Annual Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. These annual financial statements have been prepared in accordancewith the Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

These standards are summarised as follows:
GRAP 1 Presentation of Financial Statements
GRAP 2 Cash Flow Statement
GRAP 3 Accounting Policies , Changes in Accounting Estimates and Errors
GRAP 4 The Effects of Changes in Foreign Exchange Rates
GRAP 5 Borrowing Costs
GRAP 6 Consolidated and Separate Financial Statements
GRAP 7 Investments in Associates
GRAP 8 Investments in Joint Ventures
GRAP 9 Revenue from Exchange Transactions
GRAP 10 Financial Reporting in Hyperinflationary Economies
GRAP 11 Construction Contracts
GRAP 12 Inventories
GRAP 13 Leases
GRAP 14 Events After the Reporting Date
GRAP 16 Investment Properties
GRAP 17 Property, Plant and Equipment
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
GRAP 100 Non-current Assets Held for Sale and Discontinued Operations
GRAP 101 Agriculture
GRAP 102 Intangible Assets
IPSAS 20 Related Party Disclosure
IFRS 39 Financial Instruments

Accounting policies for material transaction, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraph 7,11 and 12 of GRAP 3.These accounting policies and the applicable disclosures have been based on Generally Recognised Accounting Practice (GRAP) including any interpretations of such Statements issued by the Accounting Practices Board.

The Accounting Standards Board has set transitional provisions for individual standards of GRAP as set out in Directive 4 and Directive 5 issued in March 2009. Details of the transitional provisions applicable to the municipality have been provided in the notes to the annual financial statements.

A summary of the significant accounting policies which have been consistently applied except where transitional provisionshas been granted are disclosed below.

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

Accounting Policies

1.1 Presentation Currency

The Annual Financial Statements are presented in South African Rand, which is the Municipality's functional currency.

1.2 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for asseparate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost isdeemed to be equal to the fair value of that asset on the date acquired.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.2.2 Subsequent measurement - cost model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1.2.3 Depreciation and impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property, plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

The municipality changed its accounting policy for property, plant & equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

1.2 Property, plant and equipment (continued)

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1 Presentation of Financial Statements - paragraphs 7-8A
GRAP 9 Revenue from Exchange Transactions - paragraphs 37-38
GRAP 13 Leases - paragraphs 55-60
GRAP 17 Property, Plant and Equipment - paragraphs 73-83
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102 Intangible Assets - paragraph 110-118

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant & equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant & equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and property, plant & equipment has accordingly been recognised at provisional amounts, as disclosed in 6. The transitional provision expires on 30 June 2012.

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next three financial years impairment and depreciation assessments will not be considered.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Accounting Policies

1.3 Investment property

1.3.1 Initial recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, theproduction or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is the cost at date of completion.

1.3.2 Subsequent measurement - cost model

Investment property is measured using the cost model. Under the cost model, investment property is carried at its depreciated revalued amount less impairments at the reporting date. Any gain or loss arising from the revaluation is included in revaluation reserve.

The municipality changed its accounting policy for investment property in 2010. The change in accounting policy is made inaccordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1 Presentation of Financial Statements - paragraphs 7-8A
GRAP 9 Revenue from Exchange Transactions - paragraphs 37-38
GRAP 13 Leases - paragraphs 55-60
GRAP 16 Investment property - paragraphs 63-70
GRAP 17 Property, Plant and Equipment - paragraphs 73-83
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102 Intangible Assets - paragraph 110-118

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The transitional provision expires on 30 June 2012.

1.4 Intangible assets

1.4.1 Initial recognition
An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licenses, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitlised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

• the municipality intends to complete the intangible asset for use or sale;
• it is technically feasible to complete the intangible asset;
• the municipality has the resources to complete the project; and
• it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.
Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset's) given up.

1.4 Intangible assets (continued)
1.4.2 Subsequent measurement - cost model
Intangible assets are subsequently carried at cost less accumulated amoritisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

1.4.3 Amortisation and impairment
Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method.

The annual amortisation rates are based on the following estimated average asset lives:

Computer software 5 years

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.
The municipality changed its accounting policy for intangible assets in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1 Presentation of Financial Statements - paragraphs 7-8A
GRAP 9 Revenue from Exchange Transactions - paragraphs 37-38
GRAP 13 Leases - paragraphs 55-60
GRAP 17 Property, Plant and Equipment - paragraphs 73-83
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102 Intangible Assets - paragraph 110-118

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where intangible assets was acquired through a transfer of functions, the municipality is not required to measure that intangible asset for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The transitional provision expires on 30 June 2012.

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next three financial years impairment and amortisation assessments will not be considered.

1.5 Financial instruments

Initial recognition and measurement
1.5.1 Initial recognition

Financial instruments are initially recognised at fair value.

Subsequent measurement
1.5.2 Subsequent measurement

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held to maturity, loans and receivables, or available for sale.

Financial liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

1.5 Financial instruments (continued)

Investments

1.5.2.1 Investments
Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Trade and other receivables
1.5.2.2 Trade and other receivables
Trade and other receivables are categorised as financial assets: loans and receivables and are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value.

Amounts that are receivable within 12 months from the reporting date are classified as current. An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses.

When a trade receivable is uncollectible, it is written off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

Financial Liabilities: Trade and other payables from non exchange transactions

1.5.2.3 Financial liabilities: trade and other payables from non exchange tansactions
Financial liabilities consist of trade payables and borrowings. They are categorised as financial liaibilities and are held at cost, as their cost approximates it's fair value.

Cash and cash equivalents
1.5.2.4 Cash and cash equivalents
Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred.

Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

1.6 Leases

1.6.1 Municipality as lessee
Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Accounting Policies

Leases (continued)

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.
Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

The municipality changed its accounting policy for leases in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1 Presentation of Financial Statements - paragraphs 7-8A
GRAP 9 Revenue from Exchange Transactions - paragraphs 37-38
GRAP 13 Leases - paragraphs 55-60
GRAP 16 Investment property - paragraphs 63-70
GRAP 17 Property, Plant and Equipment - paragraphs 73-83
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102 Intangible Assets - paragraph 110-118

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where leasehold asset was acquired through a transfer of functions, the municipality is not required to measure that leasehold asset for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later.

The transitional provision expires on 30 June 2012.

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next three financial years impairment and depreciation assessments will not be considered.

1.6.2 Municipality as lessor
Under a finance lease, the municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the municipality, discounted at the interest rate implicit in the lease.

The receivable is reduced by the capital portion of the lease installments received, with the interest portion being recognised as interest revenue on a time proportionate basis.

The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

1.7 Impairment of assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also:

- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount.

Impairment of assets (continued)
That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.
An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit.

The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:
- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

The municipality changed its accounting policy for property, plant & equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1 Presentation of Financial Statements - paragraphs 7-8A
GRAP 9 Revenue from Exchange Transactions - paragraphs 37-38
GRAP 13 Leases - paragraphs 55-60
GRAP 17 Property, Plant and Equipment - paragraphs 73-83
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102 Intangible Assets - paragraph 110-118

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant & equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant & equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and property, plant & equipment has accordingly been recognised at provisional amounts, as disclosed in 6. The transitional provision expires on 30 June 2012.

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next three financial years impairment and depreciation assessments will not be considered .

1.8 Non-current assets held for sale and disposal groups

1.8.1 Initial recognition
Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

1.8.2 Subsequent measurement
Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

1.9 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

1.10 Revenue Recognition

1.10.1 Revenue form exchange transactions
Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse containers per property.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis.

Interest revenue is recognised on a time proportion basis.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

1.10.2 Revenue from non-exchange transactions
Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality. Where public contributions have been received but the municipality has not met the related conditions, a deferred income (liability) is recognised.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the municipality.
Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible Councilors or officials is virtually certain.

1.11 Borrowing costs
orrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.
It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in surplus or deficit when incurred.

Accounting Policies

1.12 Retirement Benifits
The municipality provides retirement benefits for its employees and Councillors. Contributions are made to the Natal Joint Providend Fund (CJPF) to fund the obligations for the payment of retirement benefits in accordance with the rules of the defined contribution funds it administers. Contributions are recognised as an expense in the statement of Financial Performance.

1.13 Unauthorised expenditure
Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003).

Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.14 Fruitless and wasteful expenditure
Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.
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1.15 Irregular expenditure
Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.16 Internal reserves

Capital replacement reserve (CRR)
In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR. A corresponding amount is transferred to a designated CRR bank or investment account.

The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

1.17 Grants, Transfer and Receipts
Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional.

The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.18 Transitional Provisions
Hlabisa Local Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows:

GRAP 1 Presentation of Financial Statements - paragraphs 7-8A
GRAP 9 Revenue from Exchange Transactions - paragraphs 37-38
GRAP 12 Inventories - paragraphs 45-52
GRAP 13 Leases - paragraphs 55-60
GRAP 16 Investment property - paragraphs 63-70
GRAP 17 Property, Plant and Equipment - paragraphs 73-83
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102 Intangible Assets - paragraph 110-118

1.19 Value Added Tax

The Municipality accounts for Value Added Tax on the payments basis. This means that VAT is declared to the South African Revenue Services as input VAT or output VAT only when payments are made to suppliers or payments are received for goods or services.

The net output VAT on debtors where money has not been received or creditors where payment has not yet been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1.

2. Investment property

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	198,150	(84,250)	113,900	198,150	(84,250)	113,900

Reconciliation of investment property - 2011

	Opening balance	**Total**
Investment property	113,900	113,900

Reconciliation of investment property - 2010

	Opening balance	**Total**
Investment property	113,900	113,900

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The municipality changed its accounting policy for investment property in 2010. The change in accounting policy is made inaccordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as setout in Directive 4 issued in March 2009 as follows :

GRAP 1 Presentation of Financial Statements - paragraphs 7-8A
GRAP 9 Revenue from Exchange Transactions - paragraphs 37-38
GRAP 13 Leases - paragraphs 55-60
GRAP 16 Investment property - paragraphs 63-70
GRAP 17 Property, Plant and Equipment - paragraphs 73-83
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102 Intangible Assets - paragraph 110-118

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where investment property was acquired through a transfer of functions, the municipality is not required to measure that investment property for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The transitional provision expires on 30 June 2012.

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next three financial years impairment and depreciation assessments will not be considered.

Investment property with a carrying value of R 113 900 (2010: R 113 900) was recognised at provisional amounts.

The steps taken to establish the values of investment property recognised at provisional amounts due to the initial adoption of GRAP 16, is as follows:

The Municipality is in the process of appointing suitably qualified consultants to perform a complete valuation of all investment properties during the next financial year. A detailed analysis of the fair value, residual value, impairment and depreciation will be performed over the exemption period.

The date at which full compliance with GRAP 16 is expected, is 30 June 2012.

Details of valuation

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

2. Investment property (continued)

Carrying amounts of Investment Property carried at Provisional amounts are as follows:

Amounts recognised in surplus and deficit for the year.

Buildings - Office parkhome	-	-
Land - erf 339	100,000	100,000
Land - erf 264	11,000	11,000
Land - erf 282	2,900	2,900

3. Property, plant and equipment

	2011			2010		
	Cost / Valuation	**Accumulated depreciation and asset adjustments**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and asset adjustment**	**Carrying value**
Land	168,000	-	168,000	168,000	-	168,000
Buildings	6,370,177	(1,417,295)	4,952,882	6,166,311	(1,226,944)	4,939,367
IT equipment	(214,250)	-	(214,250)	-	-	-
Infrastructure	824,508	(210,911)	613,597	824,508	(136,751)	687,757
Community	14,946,521	(2,934,965)	12,011,556	14,946,521	(1,726,674)	13,219,847
Capital work in progress	49,117,451	-	49,117,451	36,026,130	-	36,026,130
Finance leased assets	582,000	(330,717)	251,283	582,000	(330,717)	251,283
Other property, plant and equipment	6,461,608	(2,054,444)	4,407,166	5,065,577	(1,180,399)	3,885,178
Total	**78,256,015**	**(6,948,332)**	**71,307,685**	**63,779,047**	**(4,601,485)**	**59,177,562**

Reconciliation of property, plant and equipment - 2011

	Opening balance	**Additions**	**Depreciation**	**Total**
Land	168,000	-	-	168,000
Buildings	4,939,367	203,866	(477,139)	4,952,882
IT equipment	-	-	-	(214,250)
Infrastructure	687,757	-	(74,160)	613,597
Community	13,219,847	-	(921,503)	12,011,556
Capital work in progress	36,026,129	13,091,322	-	49,117,451
Finance leased assets	251,283	-	-	251,283
Other property, plant and equipment	3,885,180	1,396,031	(997,782)	4,407,166
	59,177,563	**14,691,219**	**(2,470,584)**	**71,307,685**

Figures in Rand	2011	2010

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Depreciation	Total
Land	168,000	-	-	168,000
Buildings	5,150,668	-	(211,301)	4,939,367
Infrastructure	651,973	66,741	(30,957)	687,757
Community	13,515,023	198,375	(493,551)	13,219,847
Capital work in progress	14,335,308	21,690,821	-	36,026,129
Finance lease assets - other property plant & equiptment	367,684	-	(116,401)	251,283
Other property, plant and equipment	2,437,583	2,627,994	(1,180,397)	3,885,180
	36,626,239	**24,583,931**	**(2,032,607)**	**59,177,563**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Transitional provisions

Property, plant and equipment recognised at provisional amounts

The municipality changed its accounting policy for property, plant & equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1 Presentation of Financial Statements - paragraphs 7-8A
GRAP 9 Revenue from Exchange Transactions - paragraphs 37-38
GRAP 13 Leases - paragraphs 55-60
GRAP 17 Property, Plant and Equipment - paragraphs 73-83
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102 Intangible Assets - paragraph 110-118

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where property, plant & equipment was acquired through a transfer of functions, the municipality is not required to measure that property, plant & equipment for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The municipality acquired a transfer(s) of function in 2010 and property, plant & equipment has accordingly been recognised at provisional amounts, as disclosed in 6. The transitional provision expires on 30 June 2012.

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next three financial years impairment and depreciation assessments will not be considered.

Property, plant and equipment with a carrying value of R 71 307 685 (2010: R 59 177 563) was recognised at provisional amounts.

The steps taken to establish the values of property, plant and equipment recognised at provisional amounts due to the initial adoption of GRAP 17 and the adoption of Directive 4, is as follows:

The Municiality is in the process of appointing suitably qualified consultants to perform a complete valuation of all assets during the next financial year. A detailed analysis of the fair value, residual value, componentisation, impairment and depreciation will be performed over the exemption period.
The date at which full compliance with GRAP 17 is expected, is 30 June 2012.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

4. Intangible assets

	2011			2010		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	887,895	(142,327)	745,568	37,665	(18,590)	19,075

Reconciliation of intangible assets - 2011

	Opening balance	**Additions**	**Amortisation**	**Total**
Computer software, other	19,075	850,230	(123,737)	745,568

Reconciliation of intangible assets - 2010

	Opening balance	**Amortisation**	**Total**
Computer software, other	26,608	(7,533)	19,075

Transitional provisions

Intangible assets recognised at provisional amounts

Transitional provision

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as set out in Directive 4 issued in March 2009 as follows :

GRAP 1 Presentation of Financial Statements - paragraphs 7-8A
GRAP 9 Revenue from Exchange Transactions - paragraphs 37-38
GRAP 13 Leases - paragraphs 55-60
GRAP 17 Property, Plant and Equipment - paragraphs 73-83
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102 Intangible Assets - paragraph 110-118

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where intangible assets was acquired through a transfer of functions, the municipality is not required to measure that intangible asset for a period of three years from the effective date of the transfer of functions or the effective date of the Standard, whichever is later. The transitional provision expires on 30 June 2012.

Due to the impact of Directive 4 being adopted and the core criteria of all assets being exempt for measurement, for and including the next three financial years impairment and amortisation assessments will not be considered.

Intangible assets with a carrying value of R 745 568 (2010: R 19 075) was recognised at provisional amounts.

The steps taken to establish the values of intangible assets recognised at provisional amounts due to the initial adoption of GRAP 102, is as follows:

The Municipality is in the process of appointing suitably qualified consultants to perform a complete valuation of all intangible assets during the next financial year. A detailed analysis of the fair value, residual value, impairment and amortisation will be performed over the exemption period.

The date at which full compliance with GRAP 102 is expected, is 30 June 2012.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

5. Inventories

Consumable stores	1,884	19,217

6. Trade and other receivables from exchange transactions

Other debtors	13,251	13,206
Staff debtors	-	14,350
	13,251	**27,556**

7. VAT receivable

VAT	2,624,186	1,545,855

8. Consumer debtors

Gross balances		
Rates	1,327,575	1,496,227
Refuse	1,028,488	1,327,433
	2,356,063	**2,823,660**
Less: Provision for debt impairment		
Rates	1,096,522	855,413
Refuse	827,201	979,379
	1,923,723	**1,834,792**
Net balance		
Rates	1,327,575	640,814
Refuse	1,028,488	348,054
Provision for Bad Debts	(1,923,724)	-
	432,339	**988,868**
Rates		
Current (0 -30 days)	543,455	674,541
31 - 60 days	295,040	59,950
61 - 90 days	27,681	34,667
91 - 120 days	24,425	34,667
121 - 365 days	436,974	692,401
	1,327,575	**1,496,226**
Refuse		
Current (0 -30 days)	312,655	366,373
31 - 60 days	106,118	111,906
61 - 90 days	73,941	109,160
91 - 120 days	72,141	109,087
121 - 365 days	463,633	630,907
	1,028,488	**1,327,433**
Reconciliation of debt impairment provision		
Balance at beginning of the year	(1,834,792)	(735,736)
Contributions to provision	(88,932)	(1,099,056)
	(1,923,724)	**(1,834,792)**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

9. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	18,084	1,005
Bank balances	316,921	2,553,035
Short-term deposits	10,041,628	2,941,789
	10,376,633	**5,495,829**
Bank Overdraft	(1,666,095)	(53,157)
Current assets	10,376,633	5,495,829
Current liabilities	(1,666,095)	(53,157)
	8,710,538	**5,442,672**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cashbook balance**		
	30 June 2011	**30 June 2010**		**30 June 2011**	**30 June 2010**	
ABSA Bank Limited Newcastle - Current Account - 4053709558	(20,360)	1,991,923	-	(1,666,095)	2,553,034	-
FNB Bank Limited Mtubatuba - Current Account - 62205724174	316,920	516,371	-	316,920	(53,156)	-
Total	**296,560**	**2,508,294**	**-**	**(1,349,175)**	**2,499,878**	**-**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

10. Finance lease obligation

Minimum lease payments due		
- within one year	232,386	160,757
- in second to fifth year inclusive	42,875	231,672
	275,261	392,429
less: future finance charges	(57,805)	(41,198)
Present value of minimum lease payments	**217,456**	**351,231**

The Municipality has taken advantage of the transitional provisions permitted by the Accounting Standards Board, as setout in Directive 4 issued in March 2009 as follows :

GRAP 1 Presentation of Financial Statements - paragraphs 7-8A
GRAP 9 Revenue from Exchange Transactions - paragraphs 37-38
GRAP 13 Leases - paragraphs 55-60
GRAP 16 Investment property - paragraphs 63-70
GRAP 17 Property, Plant and Equipment - paragraphs 73-83
GRAP 19 Provisions, Contingent Liabilities and Contingent Assets - paragraph 93-94E
GRAP 102 Intangible Assets - paragraph 110-118

In accordance with the transitional provision as per Directive 4 of the GRAP Reporting Framework, where leasehold asset was acquired through a transfer of functions, the municipality is not required to measure that leasehold asset and leasehold liability for a period of three years from the effective date of the transfer of functions or the effective date of the Standard,whichever is later. The transitional provision expires on 30 June 2012.

Due to the impact of Directive 4 being adopted and the core criteria of all assets and liabilities being exempt for measurement, for and including the next three financial years impairment and depreciation assessments will not be considered.

Leasehold assets with a carrying value of R 351 231 (2010: R 351 231) was recognised at provisional amounts.

The steps taken to establish the values of leasehold assets and leasehold liabilitiesare recognised at provisional amounts due to the initial adoption of GRAP 102, is as follows:

The Municipality is in the process of appointing suitably qualified consultants to perform a complete valuation of all leased assets and liabilities during the next financial year.

The date at which full compliance with GRAP 13 is expected, is 30 June 2012.

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

11. Unspent conditional grants and receipts (continued)

Unspent conditional grants and receipts		
Anti - Corruption Strategy	74,500	74,500
Hlabisa Sewerage System Project	4,069,782	-
National Electrification Program	2,129,027	-
Corridor Development	1,425,041	1,407,449
Finance Management Grant	(596,493)	(687,356)
MIG	1,319,583	1,394,912
DOH - Disaster Management Grant	1,267,785	1,267,785
DPLG - MSIG	(498,713)	165,120
Library Grant	998,384	787,823
Project Consolidate - Water Recticulation	(544,881)	(453,994)
Housing Grant	253,759	253,759
Project Consolidate	240,446	240,446
DOH - Community Gardens	202,298	202,298
DTLGA - Informal Trading	(200,000)	(200,000)
PMS Grant - DC 27	(198,044)	(198,044)
Sinavuma Cultural Village	187,614	187,614
Project Consolidate - Waste Dump	(174,274)	(174,274)
Internal Control Units	1,882	150,000
LUMS Grant	114,688	114,688
SDL	80,686	169,799
MDPC Grant	(8,949)	65,301
PMS Grant	-	62,000
Mpembeni Game Lodge	54,203	54,203
Zampilo Tourism Centre	(48,454)	(48,454)
IDP Grant - DC 27	(38,172)	(38,172)
Community Initiave Grant	42,452	42,452
Public Participation	-	36,858
LED Projects - Internal	-	33,606
Property Rates Grant	33,125	33,125
Municipal Developement Plan	12,399	12,399
IDP Grant	9,922	9,922
DTLGA - Community Developement	9,011	9,011
GIS Grant	8,619	8,619
Shikishela Creche	8,346	8,346
Hlabisa Town Beautification	2,279,575	-
Unspent grant 37	(1,518)	-
Computer Grant	54	54
DC 27 - Voter registration	2,000	2,000
DOH Socio economic grant	4,676	4,676
DTLG Finance mangement grant	1,518	1,518
Inter Government department monitoring	4,677	4,677
Mpembeni Health centre	4,172	4,172
	12,530,726	**5,008,838**

12. Trade and other payables from exchange transactions

Trade payables	6,698,585	4,322,809
Other payables	-	2,295
Deposits received	9,325	11,948
Leave provisions	908,230	961,116
Annual bonus provision	251,430	229,633
	7,867,570	**5,527,801**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

13. Revenue

Property rates	307,113	466,652
Property rates – Penalties imposed and collection charges	112,535	88,600
Service charges	660,448	1,051,973
Fines	6,282,961	7,884,499
Licences and permits	274,663	301,283
Government grants & subsidies	64,818,322	56,840,367
	72,456,042	**66,633,374**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	660,448	1,051,973
Licences and permits	274,663	301,283
	935,111	**1,353,256**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	307,113	466,652
Property rates – Penalties imposed and collection charges	112,535	88,600
Fines	6,282,961	7,884,499
Transfer revenue		
Levies	64,818,322	56,840,367
	71,520,931	**65,280,118**

14. Property rates

Rates received

Municipal	307,113	466,652
	307,113	466,652
Property rates - penalties imposed and collection charges	112,535	88,600
	419,648	**555,252**

15. Service charges

Refuse removal	660,448	1,051,973

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

16. Government grants and subsidies

Equitable share	39,264,974	31,051,345
Conditional and other grants	25,553,348	25,789,022
	64,818,322	**56,840,367**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Conditional & Other Grants

Balance unspent at beginning of year	5,008,838	5,148,400
Current-year receipts	33,075,236	25,721,288
Conditions met - transferred to revenue	(25,553,348)	(25,581,726)
	12,530,726	**5,287,962**

Conditions still to be met - remain liabilities (see note 11)

Provide explanations of conditions still to be met and other relevant information

17. Other revenue

Rental income - third party	192,044	165,893
Sundry income	276,335	1,147,770
	468,379	**1,313,663**

18. General expenses

Advertising	540,152	595,805
Auditors remuneration	2,339,461	1,546,716
Bank charges	94,074	28,328
Cleaning	32,618	(707)
Consulting and professional fees	7,944,133	6,146,066
Consumables	51,588	17,952
Entertainment	236,001	146,220
Fines and penalties	7,766	6,154
Insurance	879,533	214,683
Community development and training	1,346,518	-
Lease rentals on operating lease	260,161	98,503
Fuel and oil	990,603	974,188
Postage and courier	461,496	529,300
Printing and stationery	144,818	162,192
Promotions	126,293	-
Royalties and license fees	45,002	4,891
Security (Guarding of municipal property)	645,339	591,690
Subscriptions and membership fees	122,604	15,992
Training	188,636	109,517
Utilities - Other	252,617	348,952
Uniforms	30,799	6,141
Tourism development	115,647	-
Administration Expenses	411,401	426,089
General	1,047,770	1,472,789
Subsistance & Travel	2,237,013	1,624,288
Sports	278,635	289,201
	20,830,678	**15,354,950**

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

19. Employee related costs

Basic	8,485,059	7,818,683
Bonus	573,040	393,520
Medical aid - company contributions	311,274	243,019
UIF	87,329	71,427
SDL	117,024	154,892
Post-employment benefits - Pension - Defined contribution plan	781,938	403,453
Travel, motor car, accommodation, subsistence and other allowances	999,527	861,088
Overtime payments	1,000,505	536,734
Housing benefits and allowances	1,045,357	893,216
Telephone, cell allowances	608,377	187,747
Industrial Council	72,976	(5,828)
Leave	(21,499)	341,313
Workmens Compensation	282	-
	14,061,189	**11,899,264**

Remuneration of municipal manager

Annual Remuneration	388,875	361,981
Car Allowance	144,755	286,959
Contributions to UIF, Medical and Pension Funds	34,299	7,322
Other Allowances	137,517	-
Other	19,963	-
	725,409	**656,262**

Remuneration of chief finance officer

Annual Remuneration	372,252	345,961
Car Allowance	113,792	236,037
Contributions to UIF, Medical and Pension Funds	46,159	6,761
Other Allowances	114,356	-
Other	30,388	-
	676,947	**588,759**

Corporate and human resources (corporate services)

Annual Remuneration	367,347	341,572
Car Allowance	101,329	289,738
Contributions to UIF, Medical and Pension Funds	20,517	7,117
Other Allowances	137,667	-
Other	72,821	-
	699,681	**638,427**

Planning

Annual Remuneration	360,242	274,828
Car Allowance	135,361	297,510
Contributions to UIF, Medical and Pension Funds	1,497	6,725
Other Allowances	104,800	-
Other	57,365	-
	659,265	**579,063**

Community Services

Annual Remuneration	215,961	345,899

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

19. Employee related costs (continued)

Car Allowance	31,190	208,395
Contributions to UIF, Medical and Pension Funds	1,458	6,498
Other Allowances	51,912	-
Other	14,864	-
	315,385	**560,792**

20. Remuneration of councillors

Executive Mayor	230,789	314,644
Deputy Mayor	231,137	425,763
Execurive Committee	821,382	861,844
Speaker	394,952	215,464
Councillors	3,689,651	3,149,384
Councillors Allowances	1,517,570	2,073,882
	6,885,481	**7,040,981**

In-kind benefits

The Mayor, Deputy Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor has two full-time bodyguards.

21. Depreciation and amortisation

Property, plant and equipment	2,594,325	2,032,602
Intangible assets	-	7,533
	2,594,325	**2,040,135**

22. Finance costs

Finance leases	32,161	42,701

23. Auditors' remuneration

Fees	2,339,461	1,546,716

24. Contracted services

Other Contractors	2,632,337	9,134

25. Cash generated from operations

Surplus	7,055,312	21,366,725
Adjustments for:		
Depreciation and amortisation	2,594,325	2,040,135
Finance costs - Finance leases	32,161	42,701
Debt impairment	88,932	1,099,055
Appropriations	(168,548)	-
Other non-cash items	90,509	-
Changes in working capital:		
Inventories	17,333	(19,217)
Trade and other receivables from exchange transactions	14,305	639,424
Consumer debtors	467,597	(1,511,752)

Notes to the Annual Financial Statements

Figures in Rand		2011	2010
25. Cash generated from operations (continued)			
Trade and other payables from exchange transactions		2,339,768	2,867,332
VAT		(1,078,331)	(685,273)
Unspent conditional grants and receipts		7,521,888	(139,562)
		18,975,251	**25,699,568**

26. Commitments

Authorised capital expenditure

	2011	2010
Already contracted for but not provided for		
• Property, plant and equipment	26,915,283	15,988,567

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

27. Contingencies

The Municipality is in litigation with Mguni Wells cc over the construction of the city hall. The amount in question is R 763 782.

28. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

There are no externally imposed capital requirements.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The gearing ratio at 2011 and 2010 respectively were as follows:

		2011	2010
Total borrowings			
Finance lease obligation	10	217,456	351,231
Less: Cash and cash equivalents	9	10,376,633	5,495,829
Net debt		(10,159,177)	(5,144,598)
Total equity		63,347,799	56,461,035
Total capital		**53,188,622**	**51,316,437**

Financial risk management
Financial risk management
The Directorate: Financial services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The entity does not enter into or trade financial instruments for speculative purposes.
Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports quarterly to the municipality’s audit committee, an independent body that monitors the effectiveness of the internal audit function.

Significant Accounting Policies
Details of the significant Accounting Policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of Financial Asset, Financial Liability and Equity Instrument are disclosed in the Accounting Policies to the Annual Financial Statements.

Notes to the Annual Financial Statements

28. Risk management (continued)

Market Risk
The municipality’s activities expose it primarily to the financial risks of changes in interest rates (see Note 38.7 below). No formal policy exists to hedge volatilities in the interest rate market.

Interest Rate Risk Management
Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.
Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term debtors, consumer debtors, other debtors, and bank and cash balances.
The municipality is exposed to interest rate risk as the municipality borrows funds at both fixed and floating interest rates

Liquidity Risk Management
Ultimate responsibility for liquidity risk management rests with the Council. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in Note 33 is a listing of additional undrawn facilities that the municipality has at its disposal to further reduce liquidity risk.(cash)
The municipality has access to financing facilities, the total unused amount which is R 1,477,659 at the balance sheet date. The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain current debt to equity ratio. This will be achieved through increasing tariffs and the increased use of unsecured bank loan facilities.

Credit Risk Management
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality.

Potential concentrations of credit risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions of high credit standing. The credit exposure to any single counterparty is managed by setting transaction / exposure limits, which are included in the municipality's Investment Policy. These limits are reviewed annually by the Chief Financial Officer and authorised by the Council.

Consumer debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Consumer debtors are presented net of an allowance for doubtful debt

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at balance sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Notes to the Annual Financial Statements

Figures in Rand	2011	2010

29. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

30. Events after the reporting date

The council resolved that the settlement agreement between Mr. T.V Mkhize and the Council of the Hlabisa Municipality is that of :

-Without the admission of liability the council will pay Mr T.V Mkhize the sum of R356450.86 (less appropriate tax deductions) in full and final settlement.

31. Unauthorised expenditure

Unauthorised expenditure	-	7,554,407

32. Fruitless and wasteful expenditure

Fruitless and wasteful expenditure - opening balance	6,154	6,154
Add: Fruitless and wasteful expenditure - current year	8,632	-
	14,786	**6,154**

Fruitless Expenditure of R8631.78 for penalties/mayor and council.

33. Irregular expenditure

Add: Irregular Expenditure - current year	489,666	2,400

34. Additional disclosure in terms of Municipal Finance Management Act

PAYE and UIF

VAT

VAT receivable	2,624,186	1,545,855

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

During the year, no councillors had rates in arrears.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident		
Other	350,670	-